



Commonwealth of Massachusetts

Department of Revenue

2007 Massachusetts Premium Excise Return for Life Insurance Companies Form **63-20P**

Schedules and Instructions

Form 63-20P Instructions

Who Must File Form 63-20P?

All domestic life insurance companies, as defined by Massachusetts General Laws (M.G.L.) Chapter 175, sec. 118 and 47, which are subject to M.G.L., Ch. 63, sec. 20, and which do any or all of their business in Massachusetts, must complete and file Form 63-20P.

A domestic life insurance company is a company incorporated or formed in the Commonwealth.

All classes of foreign life insurance companies on accident and health business subject to M.G.L., Ch. 63, secs. 23, 24 and 24A must file Form 63-20P.

All foreign life insurance companies subject to M.G.L. Ch. 63, secs. 20, 21 and 24A must file Form 63-20P.

A foreign company is any company organized or formed in any state or country other than Massachusetts.

When Must Form 63-20P Be Filed?

Form 63-20P must be filed on or before the 15th day of the third month after the close of the company's taxable year.

Can an Insurance Company Obtain an Extension of Time to File?

Form 63-20P filers may request a six-month extension of time to file Form 63-20P by submitting Massachusetts Form 355-7004 Misc. on or before the original due date of the return. Any tax due at the time of filing Form 355-7004 Misc. must be paid in full.

Note: An extension of time to file is not valid if the company fails to pay at least 50% of the total tax liability through estimated payments or with Form 355-7004 Misc.

What Are the Penalties for Late Returns?

Insurance excise returns which are not filed on or before the due date are subject to interest and penalty charges. The penalty for failure to pay the total payment due with this form is $\frac{1}{2}\%$ of the balance due per month (or fraction thereof), up to a maximum of 25% of the tax reported as due on the return. A late payment penalty does not apply to amended returns when the amount shown on the original return was paid.

The penalty for failure to file a return by the due date is 1% of the balance due per month (or fraction thereof), up to a maximum of 25%.

Any tax not paid on or before the due date — without regard to the extension — is subject to interest.

What is a Valid Return?

A valid return is one upon which all required amounts have been entered for all of the appropriate items on the form. Data sheets, account forms, or other documents may be attached to explain these amounts. Referencing items to attachments instead of properly entering all amounts onto the return is **not** sufficient. The return must be signed by either the treasurer or the assistant treasurer of the company.

To be valid, a return must also include the following:

- Schedule T, Exhibit of Premiums Written from the NAIC Annual Statement;
- Certificate of the Massachusetts Capital Resource Company (if applicable); and
- DL-1A, Part II — Excise on Net Value of Policies (if applicable).

Reproduction of returns must be approved by DOR prior to filing and meet the criteria provided in Technical Information Release 95-8.

Failure to meet any of the requirements detailed in this section may result in a penalty for filing an insufficient return. Such a penalty may be assessed at double the amount of the excise due.

When are Estimated Tax Payments Required?

Any insurance company which reasonably estimates its excise to be in excess of \$1,000 for the taxable year is required to make estimated tax payments to the Commonwealth. Estimated payments must be made in quarterly installments of 40%, 25%, 25% and 10% of the estimated annual tax liability.

Note: New corporations in their first full taxable year with less than 10 employees have different estimated payment percentages — 30%, 25%, 25% and 20% respectively.

Insurance companies that underpay, or fail to pay, their estimated taxes may incur an additional penalty on the amount of the underpayment for the period of the underpayment. Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, is used to compute the additional charge.

Any corporation having \$1 million or more of federal taxable income in any of its three preceding taxable years (as defined in Section 6655 (g) of the IRC) may only use its prior year's tax liability to calculate its first quarterly estimated tax payment. Any reduction in the first installment payment that results from using this method must be added to the second installment payment.

A company that claims the exception to the underpayment penalty of equaling the prior year's tax liability **must provide federal tax returns** (front page only) for the three preceding taxable years to verify that federal taxable income is less than \$1 million.

Note: Any insurance company required to file more than one type of excise return must also file separate estimated tax payments since each type of tax is governed by a different section of the Massachusetts General Laws.

For more information on corporate estimated taxes, refer to M.G.L., Chapter 63B.

How Is the Excise Determined?

Domestic life insurance companies are taxed both on life and accident and health premiums written in Massachusetts and on premiums written in other jurisdictions where no tax is paid. Form 63-20P filers must also add in dividends applied to purchase paid-up additions and/or to shorten the premium paying period. The tax rate is 2%, after claiming allowable deductions.

Form 63-20P filers are allowed deductions for dividends to policyholders, including those:

- paid in cash;
- applied in reduction of renewal premiums;
- left to accumulate at interest;
- applied to purchase paid-up additions; or
- applied to shorten the premium paying period.

Deductions are also allowed to Form 63-20P filers for returned premiums (not including cash surrender values) and/or premiums for Company Employees' Group Life and Accident & Health plans, **only** if previously included in line 1 of Part I.

A deduction for preferred provider arrangement premiums is allowed to those companies who have been approved by the Commissioner of Insurance as preferred provider organizations, if those premiums were previously included in line 1 of Part I and reported on Form 63-23P, Premium Excise Return.

Foreign Accident & Health insurance companies are taxed on net direct premiums for insurance of property or interest in Massachusetts.

Foreign life insurance companies are taxed on all new and renewal policies issued during the preceding calendar year if the insured is a resident of Massachusetts at the time the premium was paid.

Federal Audit

If your corporation has undergone a federal audit for some prior year, you must report any changes to Massachusetts on Form CA-6, Application for Abatement/Amended Return. You must report any federal audit changes within three months after the final determination by the IRS of the correct taxable income. Otherwise, you will be subject to a penalty. If the federal change results in less tax due to Massachusetts than was assessed or paid, you may apply for abatement under the federal change rules within one year of the final federal determination. Answering "yes" to this question does not release the corporation from this filing obligation.

Should the Whole Dollar Method be Used?

Yes. All amounts entered on Form 63-20P must be rounded off to the nearest dollar.

Line Instructions

Line 1. Enter the amount of premiums subject to tax in Massachusetts (from Part 1, Domestic Life Premium Excise Calculation, line 10). If amount is negative, enter "0."

Line 2. Enter the amount from Form DL-1A, Part II, Excise of Net value of Policies, if applicable.

Line 4. Enter the amount of accident and health premiums subject to tax in Massachusetts from Part 1, Domestic Life Premium Excise Calculation, line 11.

Line 5. Enter the amount of Massachusetts taxable investment income from Schedule DL-2A, Part 3, line 9.

Multiply this amount by the applicable tax rate checked in the registration section.

Life insurers may reduce their tax rate on net investment income from the 14% tax rate if they contribute the required amount to the Life Initiative over a five-year period.

The rate is 12% for the first year in which it makes the required contribution or 9.6% for the second year in which it makes the required contribution or 7.2% for the third year in which it makes the required contribution or 4.8% for the fourth year in which it makes the required contribution or 2.4% in the fifth year in which it makes the required contribution. If a company does not make the required contribution in any year, it will continue to be taxed at the rate for the last taxable year in which it did make the required contribution. The tax rate is 14% if a company has not made the required contribution for any year. A Certificate of Contribution issued by the Life Insurance Company Initiative must accompany the return if the company is claiming the lower rate.

Lines 6 and 14: Credit Recapture. If the corporation is required to recapture any amount of previously claimed Economic Opportunity Area Credit, Low-Income Housing Credit and Historic Rehabilitation Credit, complete Schedule(s) H and/or H-2 and enter the result in line 6 or 14 of the return. Current year credits can then be used to offset the total excise due which will include the recapture amount.

Line 8. Enter the amount of life premiums subject to tax in Massachusetts from Part 2, Foreign Premium Excise Calculation, line 7. If amount is negative, enter "0."

Lines 9 and 12. Use the back of Form 63-20P to calculate your excise using the same method and rate used by the state in which you are incorporated and would be imposed on a like Massachusetts insurance company, or its agents, if doing business to the same extent. If the computation in the state of your incorporation is in every respect the same as your Massachusetts computation, a statement to that effect should be made. Retaliatory tax provisions are provided under M.G.L. Chapter 63, Section 24A.

Line 11. Enter the amount of total net direct accident and health premiums subject to tax in Massachusetts from Part 2, Foreign Premium Excise Calculation, line 12. If the amount is negative, enter "0."

Line 16: Initiative Credit. A company shall be allowed a credit against the premium tax equal to 1½% (.015) of such company's total capital contribution in excess of their full proportionate share which shall mean an investment in the Massachusetts Life Insurance Company Community Investment Initiative.

This credit is effective for tax years in which the aggregate cumulative investment in the Massachusetts Life Insurance Company Community Investment Initiative reaches 100 million or the tax year 2005, whichever is later.

Line 16. Enter 1½% (.015) of the company's proportionate share of the cost of certain investments in the Massachusetts Capital Resource Company.

Line 17: Credit for member insurers of the Massachusetts Life and Health Insurance Guaranty Association. Enter 10% of the assessment for each of the five years following the year in which the assessment was paid. If the sum of offsets exceeds \$3,000,000, the excess may be carried forward and may be used in a year in which the \$3,000,000 is **not** exceeded. If the total offsets exceed \$3,000,000 in a year, the Department of Revenue will assess each member with an additional tax equal to the amount of the offset which exceeds \$3,000,000 of such members pro rata share. If the total offsets do not exceed \$3,000,000 in a year, the Department of Revenue will calculate each members' pro rata share to determine the amount of refund due each member and issue a refund to each member.

Line 19. If the admitted assets reported on the Annual Statement, page 2, is less than \$240,000,000 complete the following calculation. For each \$1,000,000 that line 1 is below \$240,000,000, multiply that number by \$500. Disregard any fractions. The maximum entry allowed is \$20,000. You must be a domestic insurance company to claim this credit.

Line 20: Economic Opportunity Area Credit. Enter the amount of Economic Opportunity Area credit claimed this year from Schedule EOAC. Enclose Schedule EOAC with this return. For more information, contact the Massachusetts Office of Business Development at One Ashburton Place, Room 2101, Boston, MA 02108.

Line 21: Full Employment Program Credit. A qualified employer participating in the Full Employment Program may claim a credit of \$100 per month of eligible employment per employee. The maximum amount of credit that may be applied in all taxable years with respect to each employee is \$1,200. Enclose Schedule FEC with this return. For more information, contact the Department of Transitional Assistance, 600 Washington Street, Boston, MA 02111.

Line 22: Low-Income Housing Credit. To claim the Low-Income Housing credit, documentation must be enclosed with the return. For further information on this credit, contact the DHCD, Division of Private Housing, at (617) 727-7824.

Line 23: Historic Rehabilitation Credit. Effective for tax years beginning on January 1, 2005 and ending on or before December 31, 2011, taxpayers may be eligible for the Historic Rehabilitation Credit (HRC). To claim this credit, a historic rehabilitation project must be complete and have been certified by the Massachusetts Historical Commission. Unused portions of the credit may be carried forward for a maximum of 5 years. This credit may be transferred or sold to another taxpayer. The HRC is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the HRC, a portion of the credit may be subject to recapture. For further information, see Regulation 830 CMR63.38.1, Massachusetts Historic Rehabilitation Tax Credit.

Line 24. Home Energy Efficiency Credit. The owner of residential property located in Massachusetts is allowed a credit for certain energy efficient items purchased between November 1, 2005 and March 31, 2006 for installation in residential property. Qualifying purchases include home insulation, new window insulation, advanced programmable thermostats, solar hot water systems, fuel-efficient furnaces, boilers, oil, gas, propane or electric heating systems, certain weather sealing and other approved purchases.

The credit allowed for the installation of qualifying purchases for any one residential building is 30% of the cost. The credit cannot exceed \$600 for a single residential unit or \$1000 for a multi-dwelling unit. Joint owners of a residential property may share any credit available to the property in the same proportion as their ownership interest. The credit allowed under this section may be taken in 2005 or 2006, regardless of the exact date on which the qualifying purchase was made. The amount of credit that exceeds the tax due for 2006 may be carried over, as reduced, and applied to the tax liability for 2007. For further information, see TIR 05-18.

Line 25. Solar Heat Credit. Massachusetts allows a credit of up to \$300 for the installation of a solar hot water heating system in a commercial building between November 1, 2005 and March 31, 2006. For further information, see TIR 05-18.

Line 26: Film Incentive Credit. For tax years beginning on or after January 1, 2006 and before January 1, 2013, motion picture companies may claim a credit equal to 20% of the total qualifying aggregate payroll for employing persons within the Commonwealth in connection with the filming and production of a motion picture, and a credit equal to 25% of their Massachusetts productions expenses. The credits are transferable. For further information, see TIR 06-1.

Line 27: Medical Device Credit. For tax years beginning on or after January 1, 2006, medical device companies that develop or manufacture medical devices in Massachusetts can claim a credit equal to 100% of the user fees paid to the U. S. Food and Drug Administration. The credit is transferable. For more information, see TIR 06-22.

Line 28: Brownfields Credit. Recent legislation extends the Brownfield credit to nonprofit organizations, extends the time frame for eligibility for the credit, and permits the credit to be bought, sold or assigned. Under prior law, net response and removal costs incurred by a taxpayer between August 1, 1998 and August 5, 2005, were eligible for

the credit provided that the taxpayer commenced and diligently pursued an environmental response action before August 5, 2005. As a result of the recent legislation, the environmental response action commencement cut-off date is changed from August 5, 2005 to August 5, 2011, and the time for incurring eligible costs that qualify for the credit is extended to January 1, 2012. For further information, see TIR 06-16.

Line 31: Voluntary contribution to the Nongame Wildlife Fund. Any corporation that wishes to contribute any amount to the Natural Heritage and Endangered Species Fund may do so on this form. This amount is added to the excise due. It increases the amount of the corporation's payment or reduces the amount of its refund.

The Natural Heritage and Endangered Species Fund is administered by the Department of Fisheries, Wildlife and Environmental Law Enforcement to provide for conservation programs for rare, endangered and nongame wildlife and plants in the Commonwealth.

Lines 37 through 39: Overpayments and refunds. If line 36 is larger than line 32, enter the amount overpaid in line 37.

The overpayment may be applied in part or in full to 2008 estimated taxes by entering in line 38 the amount to be credited to 2008 estimated tax payments. Enter in line 39 the amount to be refunded.

An overpayment of tax cannot be applied as a credit to the tax of another account of this company or to the tax of another company.

Line 40: Balance due. If line 32 is larger than line 36, enter the balance due in line 40. Payment in full is due on or before March 18, 2008.

Lines 41 and 42: Penalties and interest. Any company that has an underpayment of estimated tax will incur a penalty on the underpayment for the period of the underpayment. Enclose a copy of Form M-2220. For more information, refer to the section, "When Are Estimated Tax Payments Required?"

Any company that fails to file a timely return will be subject to a late filing penalty of 1% per month, (or fraction thereof), and a late payment penalty of ½% per month, (or fraction thereof), on the amount required to be shown as the tax due on the return. For more information, refer to the section, "What Are the Penalties for Late Returns?"

Any company which fails to pay its tax when due will be subject to interest on the unpaid balance.

Line 43: Payment due. Enter the total payment due. Checks for this amount should be made payable to the **Commonwealth of Massachusetts**. Checks should have the company's Federal Identification number written in the lower left corner.

Signature

When the form is complete, it must be signed by the treasurer or assistant treasurer. If you are signing as an authorized delegate of the appropriate corporate officer, check the box in the signature section and attach a Massachusetts Form M-2848, Power of Attorney. Mail forms to: **Massachusetts Department of Revenue, PO Box 7052, Boston, MA 02204.**